

REBUTTAL TESTIMONY

OF

ERIC LOUNSBERRY

Energy Engineering Program

Safety and Reliability Division

Illinois Commerce Commission

Application pursuant to Section 7-204 of the Public Utilities Act for authority to engage in a Reorganization, to enter into an agreement with affiliated interests pursuant to Section 7-101, and for such other approvals as may be required under the Public Utilities Act to effectuate the Reorganization

Wisconsin Energy Corporation, Integrys Energy Group, Inc., Peoples Energy, LLC,
ATC Management Inc., American Transmission Company LLC,
The Peoples Gas Light and Coke Company, and North Shore Gas Company

Docket No. 14-0496

January 15, 2015

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1 **Q. Please state your name and business address.**

2 A. My name is Eric Lounsberry and my business address is: Illinois Commerce
3 Commission (“Commission”), 527 East Capitol Avenue, Springfield, Illinois
4 62701.

5 **Q. Are you the same Eric Lounsberry who previously provided direct**
6 **testimony in this proceeding?**

7 A. Yes. I previously presented direct testimony in this proceeding, Staff Exhibit 2.0.

8 **Q. What is the purpose of your rebuttal testimony?**

9 A. My rebuttal testimony responds to the rebuttal testimony of the Wisconsin Energy
10 Corporation (“WE”) and Integrys Energy Group Inc. (“Integrys”), which includes
11 Peoples Gas Light and Coke Company (“Peoples Gas”) and North Shore Gas
12 Company (“North Shore”),¹ (collectively “Joint Applicants”) witnesses Allen
13 Leverett, Scott Lauber, John Reed, James Schott, and David Giesler, JA Ex. 6.0
14 through 10.0 respectively.

15 **Q. What was the purpose of your direct testimony?**

¹ North Shore and Peoples Gas will be referred to collectively as the “Gas Companies”.

16 A. I offered my opinion regarding whether the proposed reorganization met the
17 requirement of Section 7-204(b)(1) of the Public Utilities Act ("Act"). 220 ILCS
18 5/7-204(b)(1).

19 **Q. What is the requirement of Section 7-204(b)(1) of the Act?**

20 A. Section 7-204 of the Act requires Commission approval prior to any proposed
21 reorganization of a utility and requires the Commission to make a number of
22 findings, including the finding contained in Section 7-204(b)(1) of the Act.
23 Specifically Section 7-204(b)(1) states that the Commission must find:

24 the proposed reorganization will not diminish the utility's ability to
25 provide adequate, reliable, efficient, safe and least-cost public utility
26 service.

27 **Q. What overall recommendation did you make in your direct testimony?**

28 A. I recommended that the Commission find that the Joint Applicants, based upon
29 the showing made in their Direct Testimony, and upon information provided to
30 date in discovery at that time, did not meet the requirement of Section 7-
31 204(b)(1) of the Act.

32 **Q. What overall recommendation are you now making in this proceeding?**

33 A. I recommend that the Commission find that the Joint Applicants, based upon the
34 showing through their Direct and Rebuttal Testimony, and upon information
35 provided to date in discovery at this time, still do not meet the requirement of
36 Section 7-204(b)(1) of the Act.

Q. If the Joint Applicants agree to accept all of your proposed conditions would that change your opinion regarding the Joint Applicants meeting the requirement of Section 7-204(b)(1) of the Act?

A. Yes. If the Joint Applicants agree to accept all of my proposed conditions, then I would no longer have any reason to dispute their contention that the proposed acquisition meets the requirement of Section 7-204(b)(1) of the Act.

Q. In your direct testimony, what evidence did you indicate that the Joint Applicants should provide or address to ensure “the proposed reorganization will not diminish the utility’s ability to provide adequate, reliable, efficient, safe and least-cost public utility service”?

A. Based on my review of the filing, I concluded that to demonstrate “the proposed reorganization will not diminish the utility’s ability to provide adequate, reliable, efficient, safe and least-cost public utility service” the Joint Applicants must provide the information and address the topics listed below. These topics included four proposed commitments and four recommendations for the Joint Applicants.

- Joint Applicants will reaffirm Peoples Gas’ commitment to the Commission in Docket Nos. 09-0166/09-0167 (Consol.) to complete the Accelerated Main Replacement Program (“AMRP”) by the end of 2030.
- Peoples Gas will implement fully all recommendations in the final report of the investigation of Peoples Gas’ AMRP completed at the direction of the Commission in its June 18, 2013 Order in Docket No. 12-0512 under the authority granted in Section 8-102 of the Act (220 ILCS 5/8-102). Implementing a recommendation means taking action per a recommendation or providing an explanation with all necessary documentation and studies to demonstrate to the satisfaction of the

Commission Staff that strict implementation of the recommendation is not possible, practical, or reasonable, along with an alternative plan to accomplish the goals of the recommendation as fully as is possible, practical, and reasonable.

- Peoples Gas will cooperate fully with the Commission's Staff and consultants as they work to verify that Peoples Gas has implemented all the recommendations in the final report on the Peoples Gas' AMRP investigation. Cooperation means to provide requested personnel for interviews in a timely manner and without restrictions, to answer written questions in a reasonable time with accurate and complete information, and to make all information, equipment, work sites, work forces and facilities available for inspection when requested.
- Peoples Gas will provide written reports to the Commission Staff on or before January 1 and July 1 of each year, beginning in the year 2018 and ending only after the completion of the AMRP or any successor program that replaces the AMRP, about any change in implementation of recommendations in the final report of the investigation of Peoples Gas' AMRP. An officer of Peoples Gas shall provide written verification of the accuracy and completeness of each report.

First, I recommended that the Joint Applicants provide additional information about the PricewaterhouseCoopers ("PwC") audit of the AMRP and address any PwC recommendations. Specifically, I recommended the Joint Applicants provide:

- A summary of each recommendation made by PwC;
- A description of all action taken as a result of each recommendation;
- The start date of implementation of each recommendation;
- The ending date, if implementation of the recommendation is complete;
- The current status of implementing each recommendation; and
- If implementation of a recommendation is not complete, the Joint Applicants should provide a commitment to complete the implementation of the recommendation by a certain date.

Second, I recommended that the Joint Applicants address and update the appropriate Full Time Equivalent ("FTE") employee levels for its Gas Utilities and

Integrus Business Support Group. In particular, I requested that the Joint Applicants update their proposed FTE levels to the amounts discussed in the Joint Applicants' response to Staff Data Request ("DR") ENG 3.04. I also recommended the Joint Applicants separate their FTE commitments into their individual companies, instead of presenting them as an aggregate value and the Joint Applicants should include the statement: "Peoples Gas agrees and commits that it shall implement any increased staffing levels recommended by the Liberty audit recommendations as an overall increase in the agreed upon FTE levels for Peoples Gas" in its FTE commitment language.

Third, I recommended that Joint Applicants provide a commitment regarding capital addition investment levels, separated into specific amounts for North Shore and Peoples Gas (AMRP and non-AMRP levels) for the years 2015 through 2017. Since the amounts shown in JA Exhibit 4.1 are confidential, I also recommended the Joint Applicants provide the commitment values in a non-confidential manner. Finally, the Joint Applicants should provide support for the amounts selected, including full discussion of any differences between the proposed values and the amounts shown in JA Exhibit 4.1. For example, the Joint Applicants' responses to Staff DR ENG 3.01 and 3.02 discuss why certain values in JA Exhibit 4.1 are not consistent with other responses provided to Staff.

My fourth and final recommendation was for the Commission to direct the Peoples Gas and North Shore Gas Company ("Gas Companies") to cease their reporting on Condition #24 from Docket No. 06-0540.

118 **Q. What are your current recommendations regarding the conditions that**
119 **Joint Applicants must meet to ensure “the proposed reorganization will not**
120 **diminish the utility’s ability to provide adequate, reliable, efficient, safe and**
121 **least-cost public utility service”?**

122 A. I propose the following conditions and recommend that the Commission require
123 the Joint Applicants to meet these conditions in order to ensure the proposed
124 reorganization will not diminish the utility’s ability to provide adequate, reliable,
125 efficient, safe and least-cost public utility service

- 126 • Joint Applicants will reaffirm Peoples Gas’ commitment to the Commission
127 in Docket Nos. 09-0166/09-0167 (Consol.) to complete the Accelerated
128 Main Replacement Program (“AMRP”) by the end of 2030.
- 129 • With respect to each recommendation contained in the final report of the
130 investigation of Peoples Gas’ AMRP completed at the direction of the
131 Commission in its June 18, 2013 Order in Docket No. 12-0512 under the
132 authority granted in Section 8-102 of the Act (220 ILCS 5/8-102), Peoples
133 Gas shall evaluate the recommendation and implement it if the
134 recommendation is possible to implement, practical and reasonable from
135 the standpoint of stakeholders and Peoples Gas customers, and cost
136 effective. Implementing a recommendation means taking action per a
137 recommendation. If Peoples Gas determines that a recommendation is
138 not possible, practical, and reasonable, including that the recommendation
139 would not be cost-effective or would require imprudent expenditures,
140 Peoples Gas shall provide an explanation of Peoples Gas’ determination
141 with all necessary documentation and studies to demonstrate to the
142 satisfaction of the Commission Staff that strict implementation of the
143 recommendation is not possible, practical, or reasonable, along with an
144 alternative plan to accomplish the goals of the recommendation as fully as
145 is possible, practical, and reasonable. In the event that Peoples Gas and
146 Commission Staff cannot reach agreement as to whether a
147 recommendation should be implemented and/or how it should be
148 implemented, Peoples Gas may file a petition to obtain the Commission’s
149 determination as to whether and/or how the recommendation is to be
150 implemented.
- 151 • Peoples Gas will cooperate fully with the Commission’s Staff and
152 consultants as they work to verify that Peoples Gas has implemented the

recommendations in the final report on the Peoples Gas' AMRP investigation to the extent it is determined they should be implemented pursuant to Condition #__, above. Cooperation means to provide requested personnel who are reasonably involved in, connected to, and/or relevant to the AMRP and/or the Liberty audit for interviews in a timely manner in which the personnel interviewed shall provide, to the best of their ability, accurate and complete non-privileged information in response to questions asked, to answer written questions in a reasonable time with accurate and complete non-privileged information, and to make all non-privileged information, equipment, work sites, work forces and facilities available for inspection upon reasonable request.

- Peoples Gas will provide written reports to the Commission Staff on or before January 1 and July 1 of each year, beginning in the year 2018 and ending only after the completion of the AMRP or any successor program that replaces the AMRP, about any change in implementation of the recommendations in the final report of the investigation of Peoples Gas' AMRP to the extent it is determined they should be implemented pursuant to Condition #__, above. An officer of Peoples Gas shall provide written verification of the accuracy and completeness of each report.
- Joint Applicants will reaffirm Peoples Gas' commitment to the Commission in Docket Nos. 09-0166/09-0167 (Consol.) to complete the Accelerated Main Replacement Program ("AMRP") by the end of 2030.
- Joint Applicants agree to maintain a minimum of 1,356 FTEs for Peoples Gas, 177.7 FTEs for North Shore, and 493 FTEs for Integrys Business Support for two years after the close of the transaction. The Joint Applicants also agree to the extent it implements any recommendations in the final report on the Peoples Gas' AMRP investigation that require the hiring of additional personnel, those additional personnel shall not count toward the FTE values previously identified and the Joint Applicants shall track them separately.
- The Joint Applicants agree to make at least \$1 billion in capital expenditures for Peoples Gas and at least \$43 million in capital expenditures for North Shore during the 2015 through 2017 period. The Joint Applicants shall provide a running total of the Gas Companies capital expenditures in its semi-annual compliance report to the Commission.
- Gas Companies shall cease their reporting on Condition #24 from Docket No. 06-0540.

Resolved Issues

Commission Investigation of Peoples Gas' AMRP

Q. Did the Joint Applicants agree or agree with modifications to accept any of the conditions that you proposed in your direct testimony?

A. Yes. Mr. Leverett agreed, with certain modifications, to accept the three conditions that I proposed in my direct testimony related to the Commission's investigation of the AMRP.

Q. Are Mr. Leverett's proposed modifications to those three conditions acceptable to you?

A. Yes, aside from one minor clarification that I have noted below in the condition language. I do not foresee any issue with my clarification since it does not appear to alter the intent of the Joint Applicants' modifications. With my acceptance of Mr. Leverett's modifications and my minor clarification, the three conditions that address the Commission's investigation of the AMRP are as noted below.

- With respect to each recommendation contained in the final report of the investigation of Peoples Gas' AMRP completed at the direction of the Commission in its June 18, 2013 Order in Docket No. 12-0512 under the authority granted in Section 8-102 of the Act (220 ILCS 5/8-102), Peoples Gas shall evaluate the recommendation and implement it if the recommendation is possible to implement, practical and reasonable from the standpoint of stakeholders and Peoples Gas customers, and cost effective. Implementing a recommendation means taking action per a recommendation. If Peoples Gas determines that a recommendation is not possible, practical, and reasonable, including that the recommendation would not be cost-effective or would require imprudent expenditures,

Peoples Gas shall provide an explanation of Peoples Gas' determination with all necessary documentation and studies to demonstrate to the satisfaction of the Commission Staff that strict implementation of the recommendation is not possible, practical, or reasonable, along with an alternative plan to accomplish the goals of the recommendation as fully as is possible, practical, and reasonable. In the event that Peoples Gas and Commission Staff cannot reach agreement as to whether a recommendation should be implemented and/or how it should be implemented, Peoples Gas may file ~~then~~ a petition ~~may be filed~~ to obtain the Commission's determination as to whether and/or how the recommendation is to be implemented.

- Peoples Gas will cooperate fully with the Commission's Staff and consultants as they work to verify that Peoples Gas has implemented the recommendations in the final report on the Peoples Gas' AMRP investigation to the extent it is determined they should be implemented pursuant to Condition #__, above. Cooperation means to provide requested personnel who are reasonably involved in, connected to, and/or relevant to the AMRP and/or the Liberty audit for interviews in a timely manner in which the personnel interviewed shall provide, to the best of their ability, accurate and complete non-privileged information in response to questions asked, to answer written questions in a reasonable time with accurate and complete non-privileged information, and to make all non-privileged information, equipment, work sites, work forces and facilities available for inspection upon reasonable request.
- Peoples Gas will provide written reports to the Commission Staff on or before January 1 and July 1 of each year, beginning in the year 2018 and ending only after the completion of the AMRP or any successor program that replaces the AMRP, about any change in implementation of the recommendations in the final report of the investigation of Peoples Gas' AMRP to the extent it is determined they should be implemented pursuant to Condition #__, above. An officer of Peoples Gas shall provide written verification of the accuracy and completeness of each report.

Condition #24 from Docket No. 06-0540

Q. What recommendation did you make in your direct testimony regarding Condition #24 from Docket No. 06-0540?

251 A. I recommended the Commission direct the Gas Companies to cease their
252 reporting on Condition #24 from Docket No. 06-0540, because that information is
253 no longer needed. (Staff Ex. 2.0, 32.)

254 **Q. Did the Joint Applicants agree to accept that recommendation?**

255 A. Yes.

256 **Unresolved Issues**

257 Joint Applicant's Commitment to Complete AMRP by 2030

258 **Q. Did the Joint Applicants agree with your condition to reaffirm Peoples Gas'**
259 **commitment to the Commission in Docket Nos. 09-0166/09-0167 (Consol.)**
260 **("2009 Rate Cases") to complete the Accelerated Main Replacement**
261 **Program ("AMRP") by the end of 2030?**

262 A. No. Mr. Schott indicated that Peoples Gas' commitment to AMRP in the 2009
263 Rate Cases was to a 20-year program linked to appropriate cost recovery. He
264 testified that he was advised that it is Peoples Gas' legal interpretation that the
265 Commission linked its discussion of the timeline for completion of the AMRP with
266 its approval of the cost recovery mechanism (Rider ICR). He further noted that in
267 the 2007 Rate Cases² and the 2009 Rate Cases, People Gas was not seeking
268 approval of a plan to accelerate ongoing main replacement but, rather, of a cost

² The 2007 Rate Cases refer to Docket Nos. 07-0241/07-0242 (Consol.)

recovery mechanism to implement an accelerated main replacement program. He then concluded that the Commission language in the 2009 Rate Case Order³ tying the completion of the AMRP by 2030 to Rider ICR is no longer applicable. Finally, Mr. Schott indicated that it remains Peoples Gas' intention, assuming it receives and continues to receive appropriate cost recovery, to complete the AMRP by 2030, but Peoples Gas makes no formal commitment and does not understand itself to be under any requirement to complete the project in that timeframe. (JA Ex. 9.0, 3-4.)

Q. Do you agree with Mr. Schott's viewpoint?

A. No. My non-legal understanding of the 2009 Rate Case Order is that it first determined that completion of the AMRP by the year 2030 was necessary and in the public interest. Having made that determination, the Commission required that Peoples Gas complete the AMRP by the year 2030. Only then, did the Order provide the Rider ICR to allow Peoples Gas a means to obtain recovery of its AMRP costs versus Peoples Gas needing to seek recovery via rate cases. I also note that my position is consistent with the position Staff took in the 2009 Rate Cases, namely, that the issue of whether there is a need to accelerate replacement of cast and ductile iron mains is separate and distinct from the issue

³ The 2009 Rate Case Order refers to the Final Order in Docket Nos. 09-0166/0167 (Cons.).

of the appropriate recovery mechanism. My view is based on the Commission's Order from the 2009 Rate Case setting forth Staff's position as noted below.

Staff does not view the testimony of Company witness [Salvatore D.] Marano as supporting the adoption of a rider to collect infrastructure costs. Mr. Marano only focuses on the need for an accelerated program to replace the current network of cast iron and ductile iron mains and how that can best be accomplished. He does not, Staff points out, discuss why a rider mechanism is needed to recover the associated costs. Mr. Marano is clear on this matter, testifying as follows:

My testimony will provide my opinion and support for the accelerated replacement of PGL's gas mains and services infrastructure, based on the need for reduction of future risk to the public, the public good created by a modern asset-based gas distribution system and the economic advantages of an accelerated program. Peoples Gas Ex. SDM-1.0 at 3.

ICC Order Docket Nos. 09-0166/0167 (Cons.), 163 (January 21, 2010).

The Commission's Order in its Analysis and Conclusion section then concludes that:

Staff does not challenge the cost-benefit analysis. Nor does Staff dispute any of Mr. Marano's testimony as it relates to the acceleration of the Company's modernization. To the contrary, Staff witness Stoller testified that he is absolutely convinced of the need for Peoples Gas to replace, and on an accelerated basis, its current CI/DI low-pressure mains. On the basis of his convictions, Staff has even developed its own proposal to address the situation of the Company's aging and outdated system.

Along with all the many other positive attributes of an accelerated main replacement presented in Mr. Marano's testimony, we observe the provision of important environmental benefits. Both this State and the City have long been at the forefront in considering the health of their citizens and in undoing or preventing damage to the environment. The testimony of Mr. Marano

321 demonstrates for us that the Company's proposal for an
322 accelerated program serves these interests as well.

323 As such, when considered in terms of the critical values of public
324 safety and reliability and environmental good, there is simply
325 nothing on record to counter the Company's initiative to accelerate
326 infrastructure improvements. Indeed, we see overwhelming support
327 for a modernization program on these very grounds.

328 Order at 172 (emphasis added).

329 The Order then notes in discussing Staff's position that:

330 Staff points out that the Marano testimony identified for Mr. Stoller
331 what he considers to be a convincing case to justify replacing the
332 CI/DI mains in its distribution system on an expedited basis. Noting
333 that Mr. Marano did not focus exclusively, or even primarily, on
334 pipeline safety issues in his testimony, i.e. he also addressed the
335 issue of a cost recovery rider, Mr. Stoller's perspective was focused
336 exclusively on the concern for maintaining public safety and not on
337 any other justifications that might have underlined Mr. Marano's
338 proposal. *Id.* at 5-6. For Staff, the issue of whether there is a need
339 to accelerate replacement of CI/DI mains is separate and distinct
340 from the issue of the appropriate recovery mechanism.

341 Order at 184-185 (emphasis added).

342 The Order then concludes in its Analysis and Conclusions that:

343 We are told by Staff that an accelerated modernization program for
344 the Company is shown to be a necessity that neither the
345 Commission nor PGL can ignore. Mr. Stoller points out that the
346 Company's system is old, antiquated and approaching the point
347 where further aging will become an emergency matter rather than
348 one which can reasonably be planned and executed. It is important
349 to Staff that the replacement program begins very soon in order to
350 keep the system safe for the citizens of Chicago. This echoes the
351 City's similar position of public safety in urging for our adoption of
352 ICR.

353 On the other hand, we observe PGL and the AG to dispute Staff's
354 assertions. They each point out that there is nothing to show that
355 the Company's system is not being operated safely at the present

time. We see nothing in these arguments to contradict or explain away the testimony of Mr. Stoller or PGL's expert Mr. Marano or to give confidence to the Commission for maintaining the *status quo*.

While Mr. Marano did say that PGL has prudently managed its system and the risks it poses are well in line with acceptable industry measures, his testimony further tells us that there is a need to pursue a more accelerated approach of upgrading this system to prevent or mitigate foreseeable future risk of system and asset failure. The Commission recalls well his point that costs will only rise as matters get worse or if an emergency were to erupt.

Immediate safety concerns are not what drive our concern. We expect PGL to stay attentive to the prudent operation of its system. No company wants to come before the Commission and explain away service failures or worse events. What we glean from Mr. Marano's testimony is that PGL's performance is fine to this point - but performance alone will not obliterate the risks. The Commission does not condone such a band-aid approach nor do we consider it safe for any length of time. In other words, a band-aid will not suffice in the situation where a cut is in serious need of stitching.

Order at 193 (emphasis added).

Next, the Commission concluded:

With Staff's testimony, accelerated system improvement has become for the Commission a matter of the public interest more so than just a Company proposal. Mr. Stoller's experience and perceptions of the instant situation inform us well, and his concerns are shared by the City, the Union and this Commission.

Order at 194.

Finally, the Commission concluded:

Due to the many benefits that the accelerated plan provides to ratepayers, the Commission is of the opinion that time is of the essence and hereby requires completion of the acceleration plan project by 2030. Any variance from this completion date will require the Company to seek the Commission's approval.

390 Order at 196 (emphasis added).

391 **Q. What is your current recommendation regarding Peoples Gas' commitment**
392 **to complete the AMRP by the end of 2030?**

393 A. I continue to recommend that the Commission require the Joint Applicants to
394 reaffirm Peoples Gas' commitment from the 2009 Rate Cases to complete the
395 AMRP by 2030 using the language I provide below. Further, given the
396 disagreement between the Joint Applicants and Staff regarding our interpretation
397 of the Order from the 2009 Rate Cases on this topic, I recommend that the
398 Commission make quite clear to Joint Applicants that it is requiring completion of
399 the AMRP by the year 2030 without regard for how the utility recovers AMRP
400 costs from ratepayers. In particular, I recommend the Commission require the
401 Joint Applicants to agree to this commitment.

- 402 • Joint Applicants will reaffirm Peoples Gas' commitment to the Commission
403 in Docket Nos. 09-0166/09-0167 (Consol.) to complete the Accelerated
404 Main Replacement Program ("AMRP") by the end of 2030.

405 Full Time Equivalent Employees

406 **Q. What recommendation did you make in your direct testimony regarding the**
407 **Joint Applicants' commitment regarding the level of employees for**
408 **Integrysts?**

409 A. I recommended that the Joint Applicants address and update the appropriate Full
410 Time Equivalent ("FTE") employee levels for its Gas Utilities and Integrysts
411 Business Support Group. In particular, I requested that the Joint Applicants

412 update their proposed FTE levels to the amounts discussed in the Joint
413 Applicants' response to Staff Data Request ("DR") ENG 3.04. I also requested
414 the Joint Applicants separate their FTE commitments into their individual
415 companies, instead of presenting them as an aggregate value. Finally, I
416 recommended the Joint Applicants include the statement: "Peoples Gas agrees
417 and commits that it shall implement any increased staffing levels recommended
418 by the Liberty audit recommendations as an overall increase in the agreed upon
419 FTE levels for Peoples Gas" in its FTE commitment language.

420 **Q. Did the Joint Applicants respond to your recommendation?**

421 A. Yes, Mr. Leverett, JA Exhibit 6.0, provided the Joint Applicants response to my
422 recommendation. Mr. Leverett indicated that the Joint Applicants' 1,953 FTE
423 commitment is a "floor level" commitment for the post-merger company. He also
424 indicated that this commitment does not mean that the WEC Energy Group is
425 looking to target this level of Illinois employment to this figure and if the needs of
426 the Gas Companies to provide adequate, reliable, efficient, safe, and least-cost
427 utility service and the shared service company in Illinois may require more than
428 the commitment level. (JA Ex. 6.0, 23-24.)

429 He also noted that the FTE levels from Docket Nos. 14-0224/14-0225 ("2014
430 Rate Cases") the Gas Companies forecast and plan for 2015 and 2016, 1,356 for
431 Peoples Gas and 177.7 for North Shore, are not inconsistent with the JAs' floor-
432 level commitment. (*Id.*, 24.)

Next, he indicated that while the Joint Applicants appreciate my concern regarding adding commitment language to implement increased staffing levels recommended by the Liberty audit, they cannot commit to implement recommendations they have not seen. (*Id.*, 24-25.)

Finally, he indicated that if I continue to have concerns regarding the possibility of Peoples Gas raiding certain functional areas to comply with a Liberty recommendation, the Joint Applicants are agreeable to working with Staff to determine particular functional-area FTE commitments. *Id.*

Q. **Is the Joint Applicants' proposal from their rebuttal testimony regarding the FTE levels acceptable to you?**

A. No. Mr. Leverett's rebuttal testimony indicates that the forecasted FTE levels from the pending 2014 Rate Cases, are 1,356 for Peoples Gas and 177.7 for North Shore. *Id.* However, the Joint Applicants' proposed commitment level is only for 1,294 FTEs for Peoples Gas and 166 FTEs for North Shore. Those numbers represent reductions of 4.6% ($1,356 - 1,294 = 62$, $62/1,356 * 100 = 4.6$) and 6.6% ($177.7 - 166 = 11.7$, $11.7/177.7 * 100 = 6.6$), respectively, in the Gas Companies manpower levels.

Further, the Proposed Order from the 2014 Rate Cases provides the Gas Companies with their projected 2015 FTE levels. (Docket No. 14-0224/14-0225 (Cons.)(“2014 Rate Cases”), ALJPO, 62, 66.) Assuming the Commission adopts those conclusions in its Final Order, I do not see the rationale behind providing

454 the Joint Applicants with an FTE commitment level that falls below what the
455 Commission has based their rates upon.

456 **Q. Were the assumed FTE levels for the Gas Companies an issue in the 2014**
457 **rate cases?**

458 A. Yes.

459 **Q. What arguments did the Gas Companies use to support their proposed FTE**
460 **levels for 2015?**

461 A. Peoples Gas forecasted an increase in its headcount from 1,306 FTE employees
462 at the end of 2013 to 1,356 employees at the end of 2014 and throughout the
463 entire 2015 test year. (2014 Rate Cases, PGL Ex. 8.0 2nd REV., 23:504-505.)
464 Peoples Gas based its forecast on an increased need for employees to address
465 stricter standards of compliance with pipeline safety rules as well as increased
466 work on AMRP. (*Id.*, 24:512-515, 25:534-540.) Peoples Gas also identified
467 thirty-three positions for which interviews were currently being conducted. (*Id.*,
468 10:203-208.) The Gas Companies also noted that approximately twenty
469 positions will be filled by utility workers who graduated from the Power for
470 America training program at Dawson Technical Institute in Chicago in September
471 2014. (2014 Rate Cases, NS-PGL Ex. 38.0, 7:128-135.) The Gas Companies
472 also noted that the utility workers participate in a six-week long internship through
473 Peoples Gas, wherein the workers are assigned to a district shop and are
474 evaluated by management staff, supervisors, and peer and Peoples Gas seeks

to hire those individuals who successfully complete the internship program as full-time utility workers. (2014 Rate Cases, Tr. at 110:21-111:15.)

North Shore also forecasted an increase in its headcount to 178 FTEs throughout 2014 and 2015. In support of this forecast, North Shore noted it expects to make future additions to employee headcount. (2014 Rate Cases, NS-PGL Ex. 31.0, 3:61-63.) As support for its increased test year employee levels, North Shore provided information demonstrating that interviews were being conducted to fill thirteen open positions, and that it anticipated it would fill an additional two positions in the fourth quarter of 2014. (*Id.*, 4:65-69.) In addition, North Shore noted that the increased employee levels are necessary and reasonable, as the company's current employee levels has forced it to operate at levels below the budgeted headcount, resulting in an inefficient reliance on overtime and contractors to supplement its workforce. (2014 Rate Cases, NS-PGL Ex. 45.0, 2:39 - 3:45.)

Q. How do you respond to the Joint Applicants' concerns about relying on language that indicates any increase in FTE levels due to the Liberty Audit would count as an overall increase in FTE levels?

A. While I do understand the Joint Applicants' concern about agreeing to implement added employee levels recommended by the Liberty audit prior to seeing the recommendation, I still recommend that any FTE commitment language include reference to the Liberty audit and any agreed upon recommendations shall not count toward the initial FTE

497 commitment. However, in recognition of the concerns the Joint Applicants
498 raised, I have modified the proposed language for this commitment in a
499 manner similar to other commitments that refer to the Liberty audit.

500 **Q. The Joint Applicants also indicated they were agreeable to working**
501 **with Staff to determine particular functional-area FTE commitments.**
502 **Is this a proposal you wish to pursue?**

503 A. No. While I do appreciate the offer, I do not have any specific functional-
504 area FTE commitments in mind. My concern is an overall FTE level
505 concern not specific functional-areas.

506 **Q. Are the Joint Applicants' FTE commitment levels for the Gas Companies**
507 **sufficient to meet the requirement in Section 7-204(b)(1)?**

508 A. No. The Joint Applicants' floor level FTE commitment levels are significantly
509 lower than the numbers that the Gas Companies are requesting as the basis for
510 their new rates from the 2014 Rate Cases, are not reasonable, and are
511 inconsistent with the conclusions from the 2014 Rate Cases' proposed order.
512 Further, I continue to support recognition of the potential for additional hiring to
513 take place as a result of the Liberty audit of the AMRP, which I believe, to the
514 extent any hiring takes place, those additional personnel should not be counted
515 as part of the initial FTE commitment.

516 **Q. What is your current recommendation to the Joint Applicants regarding the**
517 **FTE levels?**

518 A. I recommend that the Commission require the below commitment from the Joint
519 Applicants regarding FTE levels:

- 520 • Joint Applicants agree to maintain a minimum of 1,356 FTEs for Peoples
521 Gas, 177.7 FTEs for North Shore, and 493 FTEs for Integrys Business
522 Support for two years after the close of the transaction. The Joint
523 Applicants also agree to the extent it implements any recommendations in
524 the final report on the Peoples Gas' AMRP investigation that require the
525 hiring of additional personnel, those additional personnel shall not count
526 toward the FTE values previously identified and the Joint Applicants shall
527 track them separately.

528 Capital Expenditures

529 **Q. What recommendation did you make in your direct testimony regarding the**
530 **Joint Applicants' future capital expenditures?**

531 A. I recommended that the Joint Applicants provide a commitment on future levels
532 of capital expenditure broken out to specific amounts for North Shore and
533 Peoples Gas (AMRP and non-AMRP levels) for the years 2015 through 2017
534 using values derived from JA Exhibit 4.1.

535 **Q. Did the Joint Applicants respond to your recommendation?**

536 A. Yes. Mr. Lauber provided rebuttal testimony addressing my recommendation.
537 Mr. Lauber indicated that the Joint Applicants respectfully disagree that the
538 proposed Reorganization does not meet the requirements of 7-204(b)(1) of the
539 Act, but in an effort to cooperate in good faith with Staff the Joint Applicants
540 proposed to commit to make a total of at least \$1 billion in capital expenditure for
541 Peoples Gas and at least \$35 million for North Shore during the 2015-2017
542 period. (JA Ex. 7.0, 6-8.)

Mr. Lauber also noted that the Joint Applicants were concerned with providing amounts for each year given the potential for unforeseen circumstances that can occur in a particular year and cause extreme variance in the ability to perform a planned level of capital work. Instead, the Joint Applicants proposed combining the years together to demonstrate that the ability of the Gas Companies to provide adequate, reliable, efficient, safe and least-cost public utility service will not be diminished, but also provide it with the flexibility necessary to ensure that these capital expenditures are made in a prudent and cost-effective manner.

Q. Are Mr. Lauber's proposals acceptable to you?

A. Not entirely, though Mr. Lauber's proposal that the Joint Applicants commit to make a total of at least \$1 billion in capital expenditure during the 2015-2017 period for Peoples Gas is acceptable. However, the proposed \$35 million commitment the Joint Applicants offered for North Shore during the 2015-2017 period is too low.

Q. Why is the amount the Joint Applicants proposed for North Shore too low?

A. I have two concerns with Joint Applicants' proposed capital expenditure value for North Shore.

First, the Joint Applicants have not treated Peoples Gas and North Shore in the same fashion. The Joint Applicants' responses to Staff data requests ENG 4.02 and 4.05 provided the same reasoning for why the proposed capital expenditure values for the Gas Companies differed from the projected capital expenditure

amounts from Joint Applicants Exhibit 4.1. In both responses the Joint Applicants indicated that the values provided were long-range forecast figures for internal management planning purposes and that these estimates are always subject to change and actual performance may vary either above or below such estimates. Next, the response indicated that the Joint Applicants proposed the amounts to allow management the flexibility necessary to address potential occurrences and realities in the years 2015 through 2017 that, in an exercise of prudent management, might require a deviation from the long-range forecast. The responses then noted that the deviations from the long-range forecast values could result from extreme weather conditions, changes in regulatory requirements, and unforeseen labor or supply shortages. Finally, the responses noted that weather conditions faced by Peoples Gas in early 2014 caused its Rider QIP Additions to be approximately \$65.5 million less than originally forecasted. (JA responses to ENG 4.02 and 4.05)

While I agree in general with the Joint Applicants' reasoning, the manner that the Joint Applicants applied the discussion was inconsistent. Peoples Gas' capital expenditures for the period 2015 through 2017 from the Joint Applicants Exhibit 4.1 is approximately \$1.176 billion. The proposed \$1 billion commitment is only about 15% less than the projected amount ($1,176 - 1,000 = 176$, $176 / 1,176 * 100 = 15\%$). However, North Shore's projected capital expenditure for the period 2015 through 2017 from the Joint Applicants Exhibit 4.1 is approximately \$50.66 million, but the Joint Applicants proposed level was only \$35 million, a reduction of almost 31%, ($50.66 - 35 = 15.66$, $15.66 / 50.66 * 100 = 30.9\%$). It is unclear to

me why such a wide disparity should exist between the Gas Companies' percentages.

Second, North Shore's historical capital expenditure levels are significantly higher than the amount proposed. As Table 1 below shows, the projected \$50.66 million is higher than two of the three year historical totals and less than two of the three year historical totals, whereas the Joint Applicants' \$35 million proposal is less than all of the historical four-year totals.

Table 1

Year	Capital Expenditure	3-Year Totals
2009	\$14,859,201	
2010	\$11,298,256	
2011	\$13,768,375	\$39,925,832
2012	\$24,650,243	\$49,716,874
2013	\$32,530,397	\$70,949,015
2014 (projected)	\$30,074,000	\$87,254,640

(Joint Applicants' responses to DR ENG 1.07 and 1.08)

Q. What is your recommendation regarding the commitment that Joint Applicants should make for North Shore's capital expenditures for the period 2015 through 2017?

A. I recommend that the Joint Applicants increase their commitment for North Shore's capital expenditures for the period 2015 through 2017 to \$43 million.

Q. What is your basis for selecting the \$43 million amount?

602 A. I selected the \$43 million by reducing North Shore's projected capital expenditure
603 for the period 2015 through 2017 of \$50.66 million by 15% ($50.66 * .15 = 7.60$,
604 $50.66 - 7.60 = 43.06$), the same percentage reduction that the Joint Applicants
605 applied to Peoples Gas capital expenditure projection.

606 **Q. Do you have any recommended language regarding your North Shore**
607 **recommendation as well as the Joint Applicants' Peoples Gas commitment**
608 **for capital expenditures for the period 2015 through 2017?**

609 A. Yes. I recommend the Commission approve the below language regarding these
610 commitments:

- 611 • The Joint Applicants agree to make at least \$1 billion in capital
612 expenditures for Peoples Gas and at least \$43 million in capital
613 expenditures for North Shore during the 2015 through 2017 period. The
614 Joint Applicants shall provide a running total of the Gas Companies capital
615 expenditures in its semi-annual compliance report to the Commission.

616 **Other Issues**

617 **Due Diligence**

618 **Q. What did you indicate in your direct testimony regarding due diligence?**

619 A. I indicated my understanding was that the Joint Applicants only conducted a high
620 level review of Integrys without any detailed review of operating practices of the
621 Gas Companies or of AMRP.

622 I also noted that the Joint Applicants claimed the proposed reorganization would
623 strengthen the WEC Energy Group's operating companies, including the Gas

Companies, by integrating best practices in distribution operations, larger capital project management, gas supply, system reliability, and customer service.

However, I noted that the Joint Applicants conducted no review to determine the level of effort and expenditure it would take on their part to make any of this happen, assuming they could make any of these changes happen at all. This is especially true of larger capital project management, which is what AMRP clearly requires. Therefore, I concluded that Joint Applicants' claims are broad, unsubstantiated generalizations.

Q. Did the Joint Applicants respond to your concern?

A. Yes. Mr. Reed indicates that WEC and Integrys both own gas distribution companies and are experienced in the day-to-day operations of those utilities. He then indicated, based on his experience, it is reasonable to assume that project management and construction practices across the various operating utilities of WEC and Integrys are not identical, and sharing best practices across the two firms will provide benefits across the operating utilities. (JA Ex. 8.0, 12.)

Mr. Reed then explained that "...both WEC and Integrys engaged in due diligence for several months before the merger was consummated in June 2014." The due diligence process included sharing non-public financial information and projections, operational data, capital investment plans, and strategic outlooks between management of the two companies, as well as their financial advisors and outside experts. He also noted that in his experience it is not customary for pre-merger due diligence to include investigation into the specifics of the utilities'

646 “on-the-ground” operations before the Transaction has been approved by the
647 multiple regulatory bodies that must review it. (*Id.*, 12-13.)

648 **Q. Have Mr. Reed’s comments alleviated your concerns about the due**
649 **diligence review conducted by the Joint Applicants?**

650 A. No.

651 **Q. Have any other actions taken place that alleviate your concerns about the**
652 **lack of a thorough due diligence review?**

653 A. Yes. As I noted in my direct testimony, one of my biggest concerns was the lack
654 of review conducted by the WE of Peoples Gas’ AMRP due to the size and scope
655 of the project. However, given the direct testimony that Staff and the various
656 Intervenors have filed in this proceeding, WE should now have a much more
657 advanced understanding of the various concerns everyone has with the AMRP
658 and the risks the Joint Applicants may face. Further, the Joint Applicants have
659 agreed to various conditions, including those regarding the implementation of the
660 Liberty audit of the AMRP. Therefore, I no longer consider the lack of a due
661 diligence review as a significant enough deficiency to conclude the proposed
662 transaction does not meet the requirement of 7-204(b)(1).

663 PricewaterhouseCoopers Reports

664 **Q. What other recommendations did you make in your direct testimony?**

665 A. I recommended that the Joint Applicants provide additional information about the
666 PricewaterhouseCoopers (“PwC”) audit of the AMRP and address any PwC
667 recommendations. Specifically, I requested that the Joint Applicants should
668 provide:

- 669 • A summary of each recommendation made by PwC;
- 670 • A description of all action taken as a result of each recommendation;
- 671 • The start date of implementation of each recommendation;
- 672 • The ending date, if implementation of the recommendation is complete;
- 673 • The current status of implementing each recommendation; and
- 674 • If implementation of a recommendation is not complete, the Joint
675 Applicants should provide a commitment to complete the implementation
676 of the recommendation by a certain date.

677 **Q. Did the Joint Applicants respond to your request?**

678 A. Yes. Mr. Giesler, JA Ex. 10.0, provided testimony regarding the PwC
679 documentation. Specifically, Mr. Giesler noted that People Gas did not create
680 the type of action plans that would be responsive to my request. However, he
681 noted that a recent AMRP assessment that was also conducted by PwC has this
682 sort of documentation. He provided a copy of the PwC document as JA Ex. 10.1.

683 **Q. Does Mr. Geisler’s response satisfy your request?**

684 A. No, I find it disappointing that Peoples Gas failed to create documentation that
685 addressed my request.

686 **Q. Does this conclude your rebuttal testimony?**

687 A. Yes, it does.